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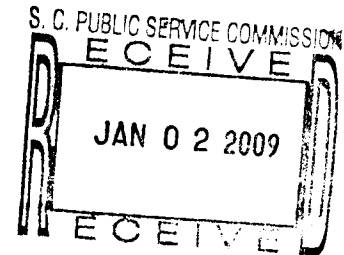
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December 31, 2008

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VIA HAND DELIVERY

Honorable Daniel E. Shearouse
Clerk of Court
The South Carolina Supreme Court
1231 Gervais Street
Columbia, South Carolina 29201

RE: Carolina Water Service, Inc. v. The South Carolina Office of Regulatory Staff
S.C. Public Service Commission Docket No. 2006-92-WS

Dear Mr. Shearouse:

I am writing to the Court in connection with its September 3, 2008 Order issued in the above-referenced appeal and in furtherance of the related telephone conversation today between Deputy Clerk Shealy, Nanette S. Edwards, Esquire, of the South Carolina Office of Regulatory Staff ("ORS") and me.

This is to notify the Court that the Public Service Commission of South Carolina ("PSC"), by its Order No. 2008-855 issued December 30, 2008, in the above-referenced docket, has approved the August 30, 2006, Settlement Agreement between Carolina Water Service, Inc. and ORS.¹ Therefore, in accordance with the terms of the Court's September 3, 2008 Order, the instant appeal is deemed mooted.

I am authorized by counsel for ORS to inform the Court that ORS agrees with the submission of the within letter and the attached document.

¹ For the Court's reference, I am attaching a copy of the PSC's order without the attachments referenced therein, which are voluminous.

(Continued . . .)

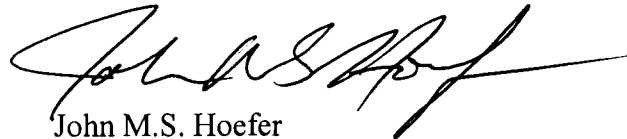
Honorable Daniel E. Shearouse
December 31, 2008
Page 2

I would appreciate your acknowledging receipt of this letter and the attached document by file stamping the two (2) extra copies of the letter enclosed and returning them to me via our courier.

If you have any questions, or require additional information, please do not hesitate to contact me. With best regards, I am,

Respectfully,

WILLOUGHBY & HOEFER, P.A.



John M.S. Hoefer

Enclosures

cc: Florence P. Belser, Esquire
General Counsel
S.C. Office of Regulatory Staff

Nanette S. Edwards, Esquire
Chief Counsel and Director of Legal Services
S.C. Office of Regulatory Staff

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina

IN RE: Application of Carolina Water Service, Inc.) ORDER APPROVING
for Adjustment of Rates and Charges for the) SETTLEMENT
Provision of Water and Sewer Service.) AGREEMENT

On March 28, 2006, CWS filed with the Commission an application for approval of a new schedule of rates and charges. By operation of S.C. Code Ann. § 58-4-10(B) (Supp. 2006), the South Carolina Office of Regulatory Staff (“ORS”) was a party of

record in the application proceeding. No other person or entity intervened or was otherwise recognized as a party of record.

CWS and ORS arrived at a settlement, which was submitted to the Commission on August 30, 2006 (“Settlement Agreement”). A hearing was held on Thursday, September 7, 2006, during which the parties presented the Settlement Agreement and the Commission posed certain questions regarding the Company’s operations and customer service. Citing the parties’ failure to answer its questions or otherwise address its concerns, the Commission rejected the parties’ Settlement Agreement and issued Order No. 2006-543 to that effect and denied the application for rate relief on October 2, 2006. CWS and ORS filed petitions for rehearing of this order pursuant to S.C. Code Ann. § 58-5-330 (Supp. 2006). On May 9, 2007, the Company filed a surety bond which the Commission approved in Order No. 2007-230 dated April 5, 2007, as required by S.C. Code Ann. § 58-5-240(D). Further, pursuant to the terms of that statute, the Company placed the full amount of the rates set forth in the Settlement Agreement into effect under bond, pending the outcome of its appeal. The Commission voted to deny both of the petitions for rehearing, and on November 19, 2007, issued Order No. 2007-140 denying the parties’ petitions for reconsideration.¹ The Commission’s decisions were thereafter appealed to the Court.

On June 27, 2008, the Court granted the ORS’s motion to withdraw its appeal. On September 3, 2008, the Court granted CWS’s and the ORS’s joint motion to hold the appeal of CWS in abeyance and remanded this matter so that the Commission could hold

¹ A more detailed procedural history of this case is set forth in the Commission’s Order No. 2007-140 of November 19, 2007.

such additional hearings as it deemed necessary and reconsider its determination to reject the August 30, 2006 Settlement Agreement. The Court's order provided that if the Commission were to approve the Settlement Agreement, the appeal would be mooted, and if the Commission were to reject the Settlement Agreement or fail to rule on the matter by December 31, 2008, CWS's appeal would be reinstated.

The Commission held a hearing on October 1, 2008, at the Commission's offices located at 101 Executive Center Drive, Columbia, South Carolina. CWS was represented by Mitchell Willoughby, Esquire, and John M.S. Hoefer, Esquire. ORS was represented by Nanette S. Edwards, Esquire, and Shannon Bowyer Hudson, Esquire. CWS presented the testimony of Steven M. Lubertozzi and Bruce T. Haas and ORS presented the testimony of Dawn M. Hipp and Sharon G. Scott as remand witnesses. The Commission also received testimony and information from two public witnesses: Representative Carl L. Gullick, and Donald G. Long, a member of the River Hills Community in York County, South Carolina.

At the October 1st hearing, the Company and the ORS presented witnesses who addressed each of the concerns cited by this Commission when we previously declined to approve the settlement. We also take note of the Company's stated willingness to continue providing this type of information in future proceedings. The witnesses addressed: 1) the finances of the Company's subsystems, and specifically of the River Hills subdivision, 2) the incidence of sewer backups, and the company's response to them, 3) the fairness of the Company's flat rate billing for sewerage services, 4) the

appropriateness of the Company's rate case expenses, and 5) the Company's DHEC compliance record.

The Commission had asked the Company to provide specific financial information regarding its subsystems, or to explain why such information could not be provided. This inquiry was prompted by the complaints of several customers, principally in the River Hills subdivision in York County, that they were paying unreasonably high rates in order to justify other less profitable subsystems operated by CWS. After considering the testimony on remand of Steven Lubertozi, the Company's Chief Financial Officer, the Commission is convinced that the Company is presently unable to compile financial information at a subsystem level without incurring significant expenses which would eventually be borne by its customers. We examined a letter from CWS to the ORS providing certain estimates regarding the finances of its River Hills operations, which was submitted by Mr. Long, a customer of River Hills, and an exhibit in which Mr. Long analyzed the Company's estimates. We also considered written testimony of Mr. Lubertozi that the Company submitted in response to Mr. Long's analysis. We find that the letter, which was written by the Company on the basis of estimated data, does not provide sufficiently accurate information on which we can base a decision. In light of this conclusion, we need not rule on the Company's objection to our consideration of Mr. Long's analysis, which was derived from the same unreliable data.

Mr. Lubertozi also testified about the hilly terrain of the River Hills service area, and how these features make the area particularly costly to serve. Lubertozi testified that 50 of the Company's 104 lift stations across the state are in River Hills. Mr.

Lubertozi's testimony suggests that customers in the River Hills would not necessarily benefit -- as some clearly believe they would -- if rates were set on a subdivision basis.

Ultimately, the Commission does not have a sufficient basis on which to conclude that customers in River Hills, or in other subdivisions served by CWS, are being treated inequitably under the Company's uniform rate structure. While the Commission does not believe that it is compelled to impose a uniform rate structure on the customers of CWS, it is not convinced that departing from a uniform rate structure is in their best interest at this time.

Sewerage backups, and the Company's response to them, were a source of concern of some customers in this case, and have been a concern in other proceedings involving water and sewerage utilities. The Commission is determined to see that regulated utilities are taking adequate measures to minimize the occurrence of these incidents and that they are adequately responding when they do occur. At the hearing on October 1st, Bruce Haas, the Company's Regional Director of Operations, provided us with details about the number of complaints of sewerage backups received by the Company during the test period and the Company's response to them. He also testified about the Company's prevention and response measures, such as periodic pressure cleaning, TV camera inspections, and smoke testing, of the Company's lines. We do not believe that there were a sufficient number of sewerage backups during the test year (41 out of 74 were determined to be the Company's responsibility) to justify denying the Settlement Agreement. We are also encouraged by the Company's continued efforts to improve its responses to sewerage backups.

At the public hearings, several of the Company's sewerage customers questioned the fairness of its flat rate billing. After considering the testimony of Mr. Lubertozi, the Commission is satisfied that it is not feasible to depart from the Company's flat rate billing method for sewerage only services at this time, because of the difficulty involved in obtaining timely and accurate data on which to base a volumetric charge. This is especially the case, since departing from the flat rate tariff would necessarily result in increased charges for some of the Company's customers. Such a change would have to be made carefully, in order to avoid unintended consequences, and even greater potential inequities than those which some customers perceive in the current flat rate structure.

The Commission previously expressed concerns that it did not have sufficient information to assess the propriety of the rate case expenses which the Company would have recovered pursuant to the Settlement Agreement. At the remand hearing, Sharon Scott, an Audit Manager with the Office of Regulatory Staff, provided a detailed accounting of the Company's rate case expenses. Specifically, she testified that no expenses were sought for the defense of an appeal that was pending at the time of the rate case, the Commission's principal concern in this matter. Based on Ms. Scott's testimony, the Commission is now satisfied that the agreed upon rate case expenses are reasonable.

The incidence and nature of a utility's DHEC violations have been viewed by the Commission as a possible indication of the quality of a company's customer service, and therefore an appropriate area of inquiry in rate cases. Dawn Hipp, the Director of the ORS's Water and Wastewater Department, provided the Commission with a detailed explanation of CWS's DHEC violations during the test year and the corrective measures

that were taken with regard to each incident. Based on Ms. Hipp's testimony, the Commission is satisfied that the Company's DHEC violations did not have an unduly negative effect on its service, especially in light of the corrective action taken.

The proposed rates and charges contained in the Settlement Agreement were explained at the hearing held on September 7, 2006. The parties of record explained that the Settlement Agreement, attached hereto as Order Exhibit 1, provides a schedule of proposed rates, terms, and conditions which they considered just and reasonable to both the Company and its customers. The Settlement Agreement specifies an agreed upon increase in annual net revenues of \$474,117 derived from a stipulated return on equity of 9.40% and a return on rate base of 7.64%, with a resultant operating margin of 9.86%. Based upon the results of the ORS's detailed audit of CWS, the record supporting the need of CWS for the rate relief, and the testimony heard at the Commission's hearing on remand on October 1, 2008, it now appears to the Commission that the Settlement Agreement provides a schedule of proposed rates, terms, and conditions that are just and reasonable.

Based upon the evidence of record in this proceeding, and giving full consideration to the additional testimony and other evidence provided during the hearing on remand, we now find that the rates agreed to by the parties, as specified in the Settlement Agreement and Exhibit G to Order Exhibit 1, are just and reasonable. Such rates should also allow CWS to continue to provide its customers with adequate water and sewer service. The Commission finds that the witnesses offered by the parties provided satisfactory explanations and evidence regarding issues which were of concern

to the Commission and either provided the requested information or explained to the Commission why the information was unavailable.

After review and careful reconsideration by this Commission of the Settlement Agreement, the evidence contained in the record of this case, and the testimony of all witnesses, the Commission concludes as a matter of law that the Settlement Agreement results in just and reasonable rates, charges and fees for water and sewer. Based on the operating revenues, income, and expenses agreed upon by the parties and as confirmed by ORS's audit, the resulting allowable operating margin for the Company is 9.86%. See S.C. Code Ann. § 58-5-240(H). Further, the revenues received by CWS from the increased rates placed into effect under bond pursuant to S.C. Code Ann. § 58-5-240(D) (Supp.2006) and Order No. 2007-230 do not exceed the revenues authorized by the Commission herein and CWS is therefore not required to issue a refund pursuant to S.C. Code Ann. § 58-5-240(D). Accordingly, CWS is released from its obligation to maintain the bond and is authorized to cancel the bond. Moreover, the surety shall be released from any and all liability in this matter.

IT IS THEREFORE ORDERED THAT:

1. The proposed rates contained in the Settlement Agreement have been entered into the record of this case without objection. We find that the schedule of rates and charges and terms and conditions of the Settlement Agreement attached hereto as Exhibit G to Order Exhibit 1, and incorporated herein by reference, are just and reasonable and will allow the Company to continue to provide its customers with adequate water and sewer services.

2. The schedule of rates and charges attached hereto as Exhibit G to Order Exhibit 1 is hereby approved.

3. A 9.40% rate of return on equity, a 7.64% return on rate base, and an operating margin of 9.86% are approved for CWS.

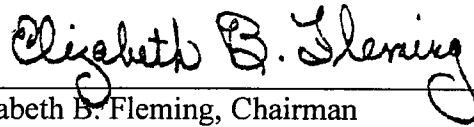
4. Because the rates and charges placed into effect under bond are consistent with the rates and charges approved herein, the revenues received from the increased rates charged pursuant to bond do not exceed the revenues allowed by the Settlement Agreement which is approved herein. Therefore, no refunds are required to be made by the Company. See S.C. Code Ann. § 58-5-240(D).

5. The surety bond heretofore filed by CWS in accordance with S.C. Code Ann. § 58-5-240(D) (Supp. 2006) and approved by the Commission in Order No. 2007-230 is no longer needed. Therefore, CWS is hereby released from its obligation to maintain the bond authorized in Order No. 2007-230 and is hereby authorized to cancel the surety bond.

6. The surety for the bond is hereby released from any and all liability in connection with the issuance of the surety bond.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Elizabeth B. Fleming, Chairman

ATTEST:


John E. Howard, Vice Chairman

(SEAL)